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DEPARTMENT FOR H/CTO, WHA/BSC, WHA/EPSC

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SUBJECT: BRAZIL SCENESETTER: CODEL PASTOR APRIL 4-10

11. This message is sensitive but unclassified, please treat accordingly.

12. (U) SUMMARY: Your visit comes at a time when the relationship between the United States and Brazil is as productive and broad-based as ever, with a strong bilateral relationship and important economic ties. Brazil has assumed a larger role in promoting regional stability by leading the UN peacekeeping contingent in Haiti and views itself as a potential member of an expanded UN Security Council. Through the financial crisis, Brazil has played a leading role globally in the G20 and also led efforts to conclude the Doha round of World Trade Organization (WTO) negotiations. Further, the country has the potential to play a major role in promoting global energy security. The Brazilian government seeks to develop a global market for biofuels and also to bring into production its vast, new off-shore oil and gas discoveries. In spite of its relatively clean energy matrix, Brazil is a major carbon dioxide emitter, largely as a result of deforestation, which makes it a critical player in the discussion on climate change. END SUMMARY.

Political Overview

13. (U) With democracy re-established in 1988 after a period of military dictatorship, Brazil's democratic institutions are generally strong and stable. President Lula remains a popular president - one of the most popular in Brazil's history and indeed in the world today, with recent approval ratings as high as 78% - as a result of his orthodox economic policies and expanded social programs. In the Congress, ongoing public scandals involving the leadership of the Senate and various members of congress have led to low ratings for the institution among the Brazilian public. Increasingly, the court system has taken steps to curb impunity among public officials. These steps have been well received by a public accustomed to abuses by authorities.

14. (U) The United States and Brazil share the basic goals of fostering hemispheric stability and preventing terrorist and drug transit activity. The attainment of a permanent seat on the United Nations Security Council has been a central goal of Brazil's foreign policy under President Lula's government. Regionally, Lula has maintained Brazil's historic focus on stability, seeing dialogue and good relations with all parties as the best way to achieve this goal. As a result, Brazil maintains an active dialogue with Venezuela and Cuba, has worked to foster good relations with Bolivia, has given its assistance in resolving the FARC hostage crisis in Colombia, and has stood firmly on the principle of respect for sovereignty in the region.

Defense Cooperation

15. (SBU) The first potential watershed in achieving a more robust defense relationship with Brazil will be the decision on a next

generation fighter aircraft. Boeing's F-18 Super Hornet is a finalist along with the French Rafale and Swedish Gripen. A decision will be made in June 2009, with a final contract award in October. It would be difficult to overstate the significance of Brazil's Air Force committing to a U.S. aircraft as its primary fighter for the next generation. Boeing's proposal combines cutting-edge technology with a strong package of industrial cooperation. To be successful, Boeing will have to make a strong case that its offset package offers economic benefits to Brazil far greater than its competitors.

Expanding Economic Ties

¶6. (U) Brazil is the tenth largest economy in the world and received investment grade from Standard and Poor's and Fitch in ¶2008. Annual Gross Domestic Product (GDP) grew 5.1 percent in 2008, and inflation was 5.8%. Prospects for 2009 have been dimmed by the global economic crisis, taking previous predictions for annual GDP growth from 4 per cent to .01 percent with some analysts predicting a recession. Despite this decline in immediate prospects, Brazil has thus far weathered the crisis better than most major economies, due in large part to its conservative macroeconomic policies.

¶7. (U) Despite progress in recent years, income distribution in Brazil remains grossly unequal, with 10 percent of the population holding over 50 percent of the nation's wealth. Brazil is home to 50 percent of the people who live in extreme poverty in Latin America. President Lula's social programs, combined with formal sector job growth and real increases in the minimum wage, have reduced income inequalities each year since 2004.

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¶8. (U) Millions of Brazilians have moved into the middle class over the last few years. Nevertheless, roughly forty percent of the population lives in poverty, a problem that can only be addressed by sustained long-term growth. Unfortunately, major structural challenges to long-term growth include a complicated and onerous tax structure, high interest rates, and cumbersome labor and business regulations. As a result of its regulatory structure, Brazil ranks 125th in the World Bank Group's Doing Business assessment of regulatory climate in 181 countries. The informal sector (one of the largest among large developing economies) constitutes an estimated 40 percent of Brazil's economy, in large part in response to the onerous tax and regulatory requirements to participate in the formal economy. To promote growth, President Lula has vigorously pursued a national Growth Acceleration Program (PAC) to increase infrastructure investment in energy, transportation, and sanitation/housing, a program that has received increased funding as a countercyclical measure in the face of the economic crisis.

¶9. (U) Brazil is a major producer and exporter. Agriculture makes up 36 percent of exports, and the agribusiness sector accounts for 25% of Brazil's GDP. Brazil is a leading exporter of soybeans, beef, sugar, coffee, and orange juice. Brazil also distinguishes itself as a major exporter of civilian aircraft, steel, and petrochemicals. The United States is Brazil's top trading partner, and China has moved into position as number two. Brazil was a significant leader in the World Trade Organization's Doha Round negotiations and was active in trying to broker a deal between the United States and India.

¶10. (U) Foreign direct investment in Brazil is increasing, with inflows of USD 44 billion in 2008; USD 6.9 billion came from the United States. Brazilian investment in the United States almost tripled between 2001 (USD 1.4 billion) and 2006 (USD 3.9 billion). President Lula has been actively selling Brazil (including at a recent Wall Street Journal sponsored investment conference in Brazil) as a solid investment destination during the financial crisis due to its sound macroeconomic policies and relatively strong economy.

¶11. (U) In recognition of Brazil's growing importance as a world economy, the U.S. government seeks opportunities for positive

bilateral cooperation on economic issues. Brazil and the United States are in discussions over a possible Bilateral Tax Treaty. After both countries agreed in June 2008 to significantly expand civil aviation opportunities, two U.S. airlines were granted approval for 21 new frequencies. Further frequency allocations for 2009 under the agreement have been tentatively allocated.

Global Financial Crisis

¶12. (U) The global financial crisis has affected Brazilian companies' exports and access to credit. Brazil's Finance Minister continues to assert that Brazil is well-positioned to weather the crisis while he and Central Bank contacts confirm moves to try to mitigate the effects of the crisis. President Lula, taking a leading role in the debt over how to handle the economic crisis including through the G20 process, has criticized actors in developed countries for sparking a crisis that affects developing countries. He has called for increased regulation of the global financial system, increased global access to trade finance, and an expanded role for large emerging countries like Brazil in international financial institutions such as the International Monetary Fund (IMF). Presidents Lula and Obama agreed to work together to advance our common interests through the G20 process and have established working groups to that end.

¶13. (U) Over the past quarter Brazil has posted a series of poor economic results that confirm the country will not escape the current global financial crisis unscathed. A February 3 report detailing a 14.5 percent drop in industrial output in December 2008 versus December 2007 (the biggest drop in 17 years), finally prompted President Lula to admit that his country's economy may be contracting. The government has reacted to the economic downturn thus far with a series of piecemeal announcements and actions aimed at increasing liquidity in the banking system, stimulating growth through a series of targeted tax cuts, and seeking to shore up exports. President Lula has announced his intention to develop a comprehensive response plan for release in the coming weeks. However, details still remain under interagency discussion.

Energy

-AREA FOR COOPERATION: BIOFUELS

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¶14. (U) For Brazil, turning ethanol into a world commodity is a key aspect of increasing energy security. Though Brazilian ethanol is produced from sugar cane, Brazil sees expansion of the global ethanol market, regardless of feed stock, as a key interest. In March 2007, the United States and Brazil signed a Memorandum of Understanding (MOU) on biofuels cooperation. As a result, scientists and laboratories from the two countries are collaboratively researching next generation biofuels technologies. We are also working together in various multilateral fora to develop international biofuels standards and sustainability criteria. By making it easier to treat biofuels as a tradeable commodity, these standards should foster the emergence of a vibrant global biofuels market.

¶15. (U) The United States and Brazil are jointly assisting a group of developing countries in creating their own biofuel markets, with the goal of reducing their dependence on imported oil. The joint cooperative effort initially targeted four countries: Haiti, St. Kitts, El Salvador, and the Dominican Republic. In November 2008, five new countries joined the group: Guatemala, Guinea-Bissau, Honduras, Jamaica, and Senegal. Brazil would like to see the United States aggressively expand these cooperation efforts to include developing countries in Africa and Southeast Asia, both as a development tool and as a way to increase the commodity market for ethanol.

¶16. (U) Modest tax breaks have stimulated the Brazilian domestic ethanol market and have led new car purchasers to opt overwhelmingly for "flex-fuel" cars that can run on gasoline, ethanol, or any combination of the two. In 2008, ethanol surpassed gasoline as the dominant automotive fuel. Domestic demand consumes 85 percent of all production. The other 15 percent is exported, primarily to the United States, making our ethanol import surcharge a continuing irritant in bilateral relations. The GOB also uses mandates to promote greater use of biodiesel.

-VAST OIL AND GAS DISCOVERIES

¶17. (U) The discovery in 2007 of potentially massive offshore ("pre-salt") reserves of oil and gas estimated to contain between 30-80 billion barrels of oil equivalent could put Brazil within the top ten oil countries by reserves. Though the discoveries have generated a great deal of excitement, industry observers caution that developments will probably be slow in coming due to the expensive technological challenges involved with ultra-deepwater drilling, including a worldwide shortage of equipment such as drilling rigs.

¶18. (U) Petrobras appears to be overextended internationally and is hamstrung by limited equipment resources. However, it has launched a multi-billion dollar procurement initiative and is reexamining its international priorities so that it can focus on domestic opportunities, though it remains to be seen how the global financial crisis will may affect those plans. U.S. oil companies are poised and ready, in many cases, to take on more exploration opportunities. Brazil is currently reexamining its oil sector structure to make the most use of these finds. Interim reports suggest that the GOB may be leaning towards developing a state-owned company to manage the rights to the oil fields as they contract out the exploration. Brazil has expressed interest in having U.S. companies involved in the exploitation of Brazil's oil reserves.

-FURTHER ENHANCING ENERGY COOPERATION

¶19. (U) Brazil and the United States have many other common areas of interest in the energy sector. The convergence of our interests offers opportunities to enhance both countries' national energy security. Building on the success of the biofuels relationship, Brazil and the United States have identified three new areas of possible collaboration under a preexisting Memorandum of Understanding between the U.S. Department of Energy and Brazil's Ministry of Mines and Energy and established new working groups in the areas of energy efficiency, clean coal, and nuclear energy. The United States also has commercial interests, particularly in nuclear energy, as Brazil looks to expand its civilian nuclear energy program. For example, Westinghouse is in the running to build four to eight new nuclear reactors in Brazil over the next ten years.

¶20. (U) The United States would like to parlay these and other shared interests into support for a hemispheric energy partnership. There are many opportunities for joint cooperation including research and development, energy efficiency, and green technologies. It is important that prominent Brazilian policymakers perceive the level of importance the USG accords to this efforts. Any appropriate opportunities for the delegation to reinforce this message would be invaluable as we pursue this major policy initiative.

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The Environment and Climate Change

¶21. (U) Brazil pursues two sometimes-conflicting goals with regard to the Amazon region. On the one hand, it seeks to preserve the natural resources and biodiversity found there. To that end, the government requires landowners to preserve eighty percent of forest on their lands and has placed large amounts of the forest into protected areas, such as national parks and indigenous reserves. At the same time, the Brazilian government seeks economic growth and redistribution of land. Thus, since the 1970s it has built a

network of roads through the Amazon, which has opened the region to timber and agriculture (mainly cattle and soybean) interests.

¶22. (U) Massive and ongoing clearing of the Amazon Forest releases large quantities of carbon dioxide into the atmosphere. The GOB estimates that about 75% of the country's green house gas emissions come from changes in land use and deforestation. From 1970-2000, Brazil's ranked 6th in the world for cumulative carbon dioxide (CO2) emissions - the country emitted 51,000 metric tons of CO2 (including land use), about six percent of the global total. During the same time period, the United States emitted 137,000 metric tons of CO2 (including land use), about sixteen percent of the global total, and was ranked number one.

¶23. (U) The GOB has taken a defensive position on deforestation, most of which is illegal and takes place on public lands. The GOB has not been able to establish an effective presence in the vast Amazon, leaving ranchers and farmers to clear government land with relative impunity. However, the national government, state and local governments, non-governmental organizations, and the business community are pursuing a variety of means to reduce the deforestation rate. In October 2008, the national Amazon Fund received a pledge of up to one billion dollars from Norway through ¶2015. Marriott Hotels and Coca-Cola recently contributed to a State of Amazonas program called Foundation Sustainable Amazonas (FAS) to financially support residents living in state reserves who choose to preserve their forests. Other organizations, such as the Moore Foundation and The Nature Conservancy, have programs to encourage conservation and to prevent the Amazon from being turned into soybean fields.

¶24. (U) The GOB has stepped up enforcement efforts to stop illegal clearing and has displayed great interest in the use of programs which pay people to avoid deforestation. These efforts, combined with a drop in agriculture commodity prices, are expected to result in a significant decrease in the deforestation rate this year. In December 2008, the GOB announced a domestic goal of reducing the deforestation rate to about 6,000 square kilometers per year by ¶2017. The deforestation rate dropped from a high of over 25,000 square kilometers in 2003 and in 2004 to around 11,000 square kilometers in 2007 and in 2008.

¶25. (U) In international climate change negotiations, Brazil has been far less bold and innovative, contending that only developed countries should be required to assume emission reduction targets. However, some within the GOB want Brazil to take a position of leadership on climate change. Although he has yet to persuade the Ministry of Exterior Relations (the GOB lead on climate change negotiations), Environment Minister Carlos Minc urges Brazil and other developing countries to take on emissions reductions targets in return for financial assistance and technology transfer.

¶26. (U) The tremendous international interest in the Amazon has made many Brazilian officials ultrasensitive on the topic. Further, a myth has arisen that the United States is interested in militarily seizing the Amazon either to preserve it or to claim its vast natural resources.

¶27. (U) Brazil is a relatively "green" country. Hydropower provides around 85% of Brazil's electricity, and passenger cars now use more ethanol than gasoline. However, in order to meet growing demands for electricity that can not currently be met through hydropower, the GOB may resort more often to fossil fuels (which currently provide less than nine percent of Brazil's electricity).

GOLDMAN ABDUCTION CASE

¶28. (U) American David Goldman is currently pursuing a Hague Abduction Case, involving his son Sean who was brought to Brazil by his mother and wrongfully retained here over 4 years ago. The case has been remanded to the 16th Federal Court in Rio de Janeiro. The Court has two cases before it: the return motion from Mr. Goldman under the Hague Convention on International Child Abduction, and the custody motion by Sean's Brazilian stepfather which was originally

filed in a Rio state court. The Ambassador and numerous elements within the Mission have been working firmly but quietly behind the scenes to remind the GOB of its obligations under the Hague Convention. We are cautiously optimistic that the move to the Federal Court will result in a more just decision on the Hague case.

We remain in constant touch with David Goldman and his Brazilian attorney to ensure that their interests are represented effectively in Brasilia. A decision may be announced soon.

Security Situation in Brazil

¶29. Political and labor strikes and demonstrations occur sporadically in urban areas and may cause temporary disruption to public transportation. Naturally, protests anywhere in the world have the potential to become violent. In addition, criminal organizations, during 2006, staged several violent campaigns against public institutions in the Sao Paulo State leading to a large number of deaths. While it is unlikely that U.S. citizens would be targeted during such events, U.S. citizens traveling or residing in Brazil are advised to take common-sense precautions and avoid any large gatherings or any other event where crowds have congregated to demonstrate or protest. Individuals with ties to criminal entities operate along the tri-border area of Argentina, Brazil, and Paraguay. These organizations are involved in the trafficking of illicit goods; some individuals in the area are financially supporting designated foreign terrorist organizations. U.S. citizens crossing into Paraguay or Argentina may wish to consult the Country Specific Information for those countries.

¶30. Crime throughout Brazil (especially Rio de Janeiro) has reached very high levels. The Brazilian police and the Brazilian press report that the rate of crime continues to rise, especially in the major urban centers - though it is also spreading in rural areas. Brazil's murder rate is more than four times higher than that of the United States. Rates for other crimes are similarly high. The majority of crimes are not solved.

¶31. Street crime remains a problem for visitors and local residents alike, especially in the evenings and late at night. Foreign tourists are often targets of crime and Americans are not exempt. This targeting occurs in all tourist areas but is especially problematic in Rio de Janeiro, Salvador and Recife.

¶32. Caution is advised with regard to nighttime travel through more rural areas and satellite cities due to reported incidents of roadside robberies that randomly target passing vehicles. Robbery and "quicknapping" outside of banks and ATM machines are common. In a "quicknapping," criminals abduct victims for a short time in order to receive a quick payoff from the family, business or the victim's ATM card. Some victims have been beaten and/or raped.

¶33. The incidence of crime against tourists is greater in areas surrounding beaches, hotels, discotheques, bars, nightclubs, and other similar establishments that cater to visitors. This type of crime is especially prevalent during Carnaval (Brazilian Mardi Gras), but takes place throughout the year. While the risk is greater at dusk and during the evening hours, street crime can occur both day and night, and even safer areas of cities are not immune. Incidents of theft on city buses are frequent and visitors should avoid such transportation. Several Brazilian cities have established specialized tourist police units to patrol areas frequented by tourists. In Rio de Janeiro, crime continues to plague the major tourist areas.

¶34. At airports, hotel lobbies, bus stations and other public places, incidents of pick pocketing, theft of hand carried luggage, and laptop computers are common. Travelers should "dress down" when outside and avoid carrying valuables or wearing jewelry or expensive watches. "Good Samaritan" scams are common. If a tourist looks lost or seems to be having trouble communicating, a seemingly innocent bystander offering help may victimize them. Care should be taken at and around banks and internationally connected automatic teller machines that take U.S. credit or debit cards. Very poor

neighborhoods known as "favelas," such as those located on steep hillsides in Rio de Janeiro, are found throughout Brazil. These areas are sites of uncontrolled criminal activity and are often not patrolled by police. U.S. citizens are advised to avoid these unsafe areas. Carjacking is on the increase in Sao Paulo, Recife and other cities.

¶35. Travelers using personal ATMs or credit cards sometimes receive billing statements with non-authorized charges after returning from a visit to Brazil. The Embassy and Consulates have received numerous reports from both official Americans and tourists who have had their cards cloned or duplicated without their knowledge. Those using such payment methods should carefully monitor their banking online for the duration of their visit.

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¶36. While the ability of Brazilian police to help recover stolen property is limited, it is nevertheless strongly advised to obtain a "boletim de ocorrencia" (police report) at a "delegacia" (police station) whenever any possessions are lost or stolen. This will facilitate the traveler's exit from Brazil and insurance claims.

¶37. In many countries around the world, counterfeit and pirated goods are widely available. Transactions involving such products may be illegal under local law. In addition, bringing them back to the United States may result in forfeitures and/or fines.

¶38. COMMENT: Brazil has seen its importance on the world stage multiply exponentially in just the last few years. It is a major player in the region and while the government is largely friendly and open to the U.S., they do not and will not always see eye to eye with us. The most promising areas for collaborating with Brazil, while also furthering our own national interests, lie in the areas of energy and climate change. Your visit offers the opportunity to highlight how important Brazil is in this effort and underline our strong interest in expanding our relationships in these areas. END COMMENT.

SOBEL